LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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FISCAL IMPACT STATEMENT

LS 6471 **DATE PREPARED:** Apr 9, 2001
BILL NUMBER: SB 79 **BILL AMENDED:** Apr 5, 2001

SUBJECT: Inventory Tax Phaseout.

FISCAL ANALYST: Bob Sigalow, Diane Powers
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FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) This bill provides that a county may impose a County Economic Development Income Tax (CEDIT) for property tax replacement purposes on the apportioned net income of corporations and pass through entities. It provides that this tax may be imposed at a rate of not more than 1.5% of the apportioned net income of a corporation and not more than 0.5% of the apportioned net income of a partnership or S corporation. The bill provides that the revenue generated from this tax is not included in the certified distributions of revenues from the CEDIT imposed on individuals, but shall instead be deposited in a County Personal Property Tax Replacement Fund and used to provide tax credits against property tax liability on business personal property. This bill provides that the entity that imposes the tax (either the county council or the county income tax council) shall each year specify by ordinance the types or classes of business personal property that are eligible for property tax replacement. The bill also specifies that the credit percentage shall be uniform throughout a county for eligible business personal property.

Effective Date: (Amended) Upon Passage; July 1, 2001.

Explanation of State Expenditures: (Revised) The State Board of Tax Commissioners, after receiving the county's certification of assessed value eligible for replacement, would certify to the county auditor the replacement credit amount that each business taxpayer would receive. The State Tax Board would be able to complete this task with existing resources.

The Department of State Revenue will have additional administrative expenses to change tax forms, instructions, and computer programs to accommodate this new CEDIT on corporations and pass-through entities.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) Beginning July 1, 2001, counties would have the option of adopting an Economic Development Income Tax on the apportioned income of corporations and pass-through entities. The proceeds of the tax would be used to reduce business personal property tax liabilities in the county. The county would specify the types or classes of business personal property that would be eligible for replacement. The maximum tax rate would be 1.5% for corporations and 0.5% for pass-through entities. If all the counties adopted this tax at the maximum rate, it is estimated to raise approximately $126.7 M in CY 2002.

Net business personal property tax after all credits and deductions totaled $1,280.6 M in CY 2000. The net business personal property tax for future years is estimated at $1,486 M in CY 2002, $1,098 M in CY 2003, and $1,182 M in CY 2004. The smaller estimates beginning in CY 2003 are caused by the upcoming reassessment of real property effective in CY 2003. Reassessment will cause the tax rate for all property to be reduced. Assuming that all counties adopt the corporate and pass-through CEDIT tax and assuming that all counties declare all business personal property eligible for replacement credits, then the above amounts would be the estimated property tax eligible for credit.

State Agencies Affected: State Board of Tax Commissioners; Department of State Revenue.

Local Agencies Affected: County councils; County income tax councils.

Information Sources: State Board of Tax Commissioners, Property Tax Analysis, various years; Local Government Database.